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Section 1: Policy Statement and Purpose

The Endowment Fund, formerly known as the “6-Book fund” because all of its general ledger accounts begin with the number six (6), accounts for and contains all of the University’s unrestricted, quasi-restricted, temporarily restricted**,** and permanently restricted net assets. These assets, liabilities and net assets are segregated from the University’s main operating funds to preserve their unique identity and ensure precise accounting for the internal and external restrictions placed on these funds.

A companion policy, 400.200P: Investment Policy Statement, is maintained by the University Board of Trustees (the “Board”) and details how the monies placed in the Endowment Fund investment pool should be held and invested.

This policy applies to all members of the Board of Trustees and all University employees.

Section 2: Definitions

A. **Unrestricted net assets:** Donor contributions to be placed in the University endowment, with no donor restrictions on how the funds may be spent. The Board must approve any removal or loan of endowment net assets.
B. **Quasi-restricted net assets**: Certain operating or unrestricted funds earmarked by the University to act as endowment funds for long-term investment. The Board must approve any removal or loan of endowment net assets.
C. **Permanently restricted net assets:** Donor contributions with specific restrictions, both on which part of the contribution and how the funds may be spent. The income earned on these funds is recorded in the temporarily restricted fund. This class of net assets often is referred to as the “Corpus.” These funds may not be reduced or changed without permission from the donor or, in extreme financial stress, permission from a judge.
D. **Temporarily restricted net assets:** Income earned on invested net assets that have not been drawn down in an endowment draw. These funds are used according to donor restrictions or, in certain conditions, University policy. The Board determines the rate at which these funds are used in policy 400.200P: Investment Policy Statement.
E. **Investment pool:** The unrestricted, temporarily restricted, and permanently restricted funds that are pooled together for long-term investments per policy 400.200P: Investment Policy Statement.
F. **Split-interest trusts:** An irrevocable trust in which the University has been named as a full or partial beneficiary. In such trusts, there is at least one charitable beneficiary and one non-charitable beneficiary. In the case of a charitable remainder trust, income is first distributed to the donor or another non-charitable beneficiary for a specified period of time; following this period of time, both the income and the principal of the trust are distributed to the University. A charitable remainder trust may have an annuity payout or unitrust payout. In the case of a charitable lead trust, income is first distributed to the University for a specified period of time; following this period of time, both the income and the principal of the trust are distributed to non-charitable beneficiaries selected by the donor.
G. **Liabilities under split-interest trusts:** When a split-Interest trust is created in which the University is a beneficiary and is given the right to control the trust, the University is required to accrue the required payments to the other beneficiary according to the specifications of the trust document. This accrual must be recorded as a liability under split-interest trusts on the Statement of Financial Position and is measured

based on the present value of the future expected payments to the other beneficiary. The vendor or bank which manages each trust will provide an annual update on the present value calculation.

H. **Beneficial interest in perpetual trusts**: A trust in which beneficiaries continue to receive distributions in perpetuity or until the trust runs out of assets. Unlike split-interest trusts, however, the University will never receive the principal of this trust. Accounting Standards Codification (ASC) Topic 105 allows the University to record the value of this beneficial interest on the Statement of Financial Position.

I. **Non-monetary assets:** Donations or bequest assets to the University that are not cash or marketable securities (e.g., real estate, artwork, and cash-value of life insurance policies in which Drury is the beneficiary). These assets must be recorded at market value and reappraised at least every ten years.

J. **Intra-fund investments:** Endowment funds loaned to the operating fund in place of external financing secured by the University. These intra-fund investments may or may not be made with interest.

K. **Underwater funds:** When the sum of an individual endowment fund's permanently restricted balance and temporarily restricted balance is less than the permanently restricted balance, it is said to be "underwater." This typically occurs when the investment pool experiences a negative total return.

L. **Budget relieving fund**: Funds used to provide a reduction to originally-budgeted expenses in a designated department's budget in a specific fiscal year. These funds reduce the amount the University must allocate to a department's budget.

M. **Budget enhancing fund:** Funds used to provide additional or "enhanced" expenses to the designated department in a specified fiscal year. These funds are external to the University's operating budget (i.e., these funds pay for expenses in addition to what was originally budgeted).

   1. **Inactive funds:** All funds will be re-evaluated annually to ensure they are being spent and/or planned with specific intention. If it is determined that funds are not being used intentionally, the University's Senior Leadership Team may restructure the funds to become budget relieving.

N. **GAAP:** Generally Accepted Accounting Principles.

SECTION 3: GIFT POLICY

A. The University maintains certain policies dictating the conditions that must be present for gifts to be placed in the Endowment Fund. Key policies include:

   1. Minimum Endowment Size
      a. Individually named endowment funds may be created when the fund reaches $10,000 in collected gifts. At this point, a fund may be named at the discretion of the donor and with the approval of University Advancement.
      b. Funds with a value between $10,000-25,000 are unrestricted.
      c. Once a fund reaches $25,000 in collected gifts, the donor(s) may restrict the income of the fund with the approval of University Advancement.
   2. Time Limit
      a. Donor(s) may pledge to create a named endowment, but must collect gifts totaling at least $10,000 within three (3) years of beginning the fund.
      b. Should a fund not reach the $10,000 endowment threshold within the three-year timeframe, Financial Services will maintain the funds in a Restricted Operating Fund; the funds will be spent according to the originally intended endowment restriction. In situations in which the documentation is unclear or lacking in instruction regarding this issue, Financial Services will notify University Advancement to resolve the issue.
   3. Non-Monetary Gifts

a. Most assets (e.g., stock, jewelry, or other non-monetary gifts) are to be liquidated and proceeds put in the investment pool as soon as possible (typically within six (6) months, so long as economic conditions are favorable for the liquidation of such items).
    1) Liquidation of non-monetary gifts will be the joint responsibility of University Advancement and Financial Services.
b. At the Board's discretion, certain real estate or artwork may be held to enhance the campus or in anticipation of long-term value appreciation.

4. Bequests
    a. All estate gifts must be deposited directly into the endowment upon receipt by the University unless amount is below the $10,000 minimum, the gift is otherwise restricted by the donor, or with permission of the Board, per policy 400.200P: Investment Policy Statement.

SECTION 4: FUND CREATION

A. New funds will be created by Financial Services upon receipt of a new gift and subsequent completion of form 405.001F1: Gift Restriction Summary & Request for Creation of Fund.
B. Should a department accumulate an excess of funds in a Restricted Operating Fund (ROF), they may request creation of a quasi-endowed restricted fund via form 405.001F4: Request for Quasi-Endowment Fund.
    1. The minimum transfer to establish a quasi-endowed restricted endowment fund is $25,000.
    2. Form 405.001F4 must be approved by:
        a. The ROF's budget administrator
        b. The ROF's supervising dean (if applicable)
        c. The ROF's divisional vice president/executive director
        d. The Chief Financial Officer
    3. While these funds are not legally restricted, the University must consider them permanently restricted and use them only in compliance with the funds' restrictions.
    4. Should the University receive an externally restricted endowment gift of less than $25,000 for the purpose of a quasi-endowed fund, the fund's budget administrator – in consultation with his/her dean and vice president/executive director – must decide whether to return the quasi-endowed funds to the ROF permanently or maintain the permanently restricted endowed fund.
        a. This is a one-time decision that may not be reversed at a later date, due to the requirements to endow funds and the legal restrictions on the external gifts within the endowed fund.
        b. The decision must be approved by the budget administrator, dean, and divisional vice president/executive director and communicated in writing to Financial Services.

SECTION 5: BOOKKEEPING

A. Financial Services staff are responsible for maintaining, tracking, and reconciling the University's investments within the University's chosen Software as a Service (SaaS) platform(s) and General Ledger. Investment changes and new gifts must be updated and reported to the Board of Trustees Endowment Management Committee at least quarterly.
B. University Advancement staff are responsible for maintaining gift records in the division's fundraising software.

C. At least annually, Financial Services will reconcile the SaaS platform to University Advancement's fundraising software to ensure that General Ledger account numbers and fund balances remain in sync.

SECTION 6: FUND INVESTMENT

A. The investment pool will be invested per the guidelines in policy 400.200P: Investment Policy Statement.

B. The Board appoints a number of trustees to serve on an Endowment Management Committee. Additionally, certain University personnel (typically the President and Chief Financial Officer) will be appointed by the Board to serve as University liaisons to the Endowment Management Committee.

   1. These trustees and personnel are responsible for making endowment-related decisions (see document 400.200D1: Endowment Management Committee Statement of Purpose for a detailed Committee charge and list of responsibilities).
   2. The Endowment Management Committee is responsible for the selection of a third-party institutional investment consultant, which will manage the investment pool and advise the Committee.
   3. The Endowment Management Committee will meet at least quarterly to discuss investment results, investment activity, and other topics related to the endowment.

C. Endowment items not included in the investment pool (a small percentage of the endowment largely comprised of non-monetary assets) will be secured, maintained, and/or liquidated by Financial Services under the direction and review of the Endowment Management Committee.

SECTION 7: ENDOWMENT DRAW CALCULATION AND EARNINGS DISTRIBUTION

A. The University's annual endowment draw is based on the criteria and calculations specified in policy 400.200P: Investment Policy Statement. This information is entered into the SaaS platform, which then calculates the budgeted draw amount.

B. The annual draw will be spread to the appropriate Restricted Operating Funds and the University's operating budget within the first quarter of each new fiscal year.

SECTION 8: FUND SPENDING

A. Gifts and endowments are most useful to the long-term health of the school as budget-relieving sources of revenue, as opposed to budget-enhancing. To this end, distributions from endowed funds will be used to relieve a department's budget to the extent that doing so is appropriate for that endowment's restrictions.

   1. Generally, distributions from endowed funds that exceed a department's regularly-budgeted expenses will allow that department to increase its budget until the budgeted expenses reach the level of the distributions from endowed funds.

B. Should an endowment fund have a restriction that is so specific that it must be used as a budget-enhancing fund, the distribution from endowed funds will remain in the appropriate Restricted Operating Fund rather than be transferred into the general operating budget.

SECTION 9: UNDERWATER ACCOUNTING POLICY

A. During times of negative total returns, individually-named endowment funds may become "underwater."

B. If less than half of the net asset value of the endowment funds are underwater, the Chief Financial Officer, in consultation with the University's Senior Leadership Team and approval from the Board of Trustees Financial Affairs Committee, may forego an endowment draw on the underwater fund(s) until such time as the investments are positive once again.
C. If half or more of the net asset value of the endowment funds are underwater, the Chief Financial Officer, in consultation with the University's Senior Leadership Team and approval from the Board of Trustees Financial Affairs Committee, may elect to "borrow" from unrestricted funds in order to fund scholarships and other programs that otherwise would have to be covered by the University budget.
   1. When deciding whether to "borrow" from unrestricted net assets, the University must factor into its decision:
      a. Debt covenant analysis (to ensure sufficient unrestricted liquidity is available to comply with the covenant),
      b. Budget analysis (to determine if the operating budget can absorb committed scholarships), and
      c. Investment market conditions (to determine if the downturn is expected to be a short-term or multi-year issue).
   2. Because of the complexity of the required analysis and the fact that the "borrowing" is generally caused by drawing more endowment spending into the budget than investment returns can support on a long-term basis, every effort is made to keep such "borrowing" to a minimum.
   3. Any "borrowing" from unrestricted net assets must be repaid at the earliest possible date as market conditions change and investment income is accumulated again.
   4. Any "borrowing" from the unrestricted endowment pool will be tracked carefully in the General Ledger by Financial Services personnel to ensure proper repayment to unrestricted net assets (see guide 405.001G5: Endowment Fund Procedures).

SECTION 10: FUND REPORTING

A. The third-party institutional investment consultant will present data to the Board's Endowment Management Committee and staff liaisons on at least a quarterly basis.
B. Financial Services staff are responsible for reviewing reports from the third-party institutional investment consultant and the third-party SaaS platform to ensure that activity is in sync (with allowances for timing differences in reporting).
C. The entire Endowment Fund is reported as its own column in the annual audited financial statements, with numerous related footnotes detailing more in-depth analysis.
D. Further reporting is available at the request of the Endowment Management Committee or Board.

SECTION 11: VENDOR CONTROLS

A. The University will collect annually System and Organization Controls (SOC) reports from all investment-related third-party service providers and/or software providers who store and/or manage University data on non-University servers (i.e., cloud-based software platforms).